

ASSESSMENT OF COVID-19 IMPACT ON FISCAL SUSTAINABILITY AND REAL GDP GROWTH IN EUROPE

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Abstract: The pandemic caused by the SARS-CoV-2 virus is the event with the strongest short-term impact on socioeconomic life in recent decades. It caused an unprecedented shock that faced governments around the world with challenging decisions.

Imposing physical distancing measures was necessary to prevent the spread of the virus. At the same time, the shutdown of entire sectors took a heavy toll on the economy.

On the one hand, the contraction of GDP led to lower public revenue in the state budgets. On the other hand, governments introduced various measures to stimulate the economy. They were associated with both temporary tax relief and additional spendings on the social and healthcare systems.

For the first time, the general escape clause was activated by the European Commission and temporary deviations from the fiscal rules were allowed. This empowered governments to take the necessary measures without considering these limitations. However, due to lower GDP growth and tax cuts, public revenues declined. At the same time, costs increased significantly - for hospital treatment, sickness and quarantine benefits, for business and household support.

These circumstances led to the accumulation of significant deficits and accelerated debt. Several analyses of the numerical values of these deviations in the budget parameters have been carried out in accordance with the reported statistics. However, research on fiscal sustainability is more limited. It is an indicator that is also measured by different methods and takes a numerical value. However, fiscal sustainability can also be assessed through a more subjective approach. Such can be obtained with analysis of expert opinions.

An empirical study was conducted among seventeen countries in the European Union. The respondents are representatives of expert or managerial level in independent fiscal institutions. These organizations are considered more objective than the ministries of finance. This is because the task of the former is to conduct independent monitoring, while the latter make decisions on fiscal policy.

One of the various questions asked in the research is related to fiscal sustainability and real GDP growth. Using a scale of 1 to 5, experts provide an assessment of the impact of COVID-19 on fiscal sustainability in the short and in the long term, on real GDP growth and on minimizing the output gap. The results can be used as a basis for further research comparing the numerical values of indicators with the assessment of experts, which is considered more subjective.

Keywords: COVID-19, fiscal sustainability, real GDP growth, output gap, independent fiscal institutions

1. INTRODUCTION

The shock caused by the SARS-CoV-2 virus is unprecedented in our time. It requires swift and decisive actions undertaken by the governments. Indisputably, the highest priority is preserving the health of the population. To achieve that objective, a variety of measures had to be introduced. The governments have to guarantee there are sufficient provisions for protective equipment, medicaments, testing kits, vaccines. In addition, hospital treatment should be available for everyone who needs it. These actions require funding by the state budget and lead to increased public spending (Metalova & Jolovski, 2022).

Furthermore, measures for prevention of the spread of the virus have to be imposed. The governments introduced various restrictions to guarantee physical distance, such as temporary closure of certain businesses and limiting the number of people in public indoor places. These led to contraction of the economy and caused decreased public revenue (Фискален съвет на България, 2021).

In addition, the governments had to implement budget measures to support entrepreneurs and households. Various programs for direct financial support, maintaining employment and tax preferences were introduced (Иванова, 2021). A significant part of the population received compensation for being unable to work due to illness or quarantine. As a result, public expenditure grew even more (Фискален съвет на България, 2020).

On the one hand, the measures for physical distances took a heavy toll on the economy. The contraction of GDP led to lower revenue in the state budgets. On the other hand, a significant increase in public spending is needed to preserve the health of the population and support the ones that are affected the most.

For the first time, the general escape clause was activated by the European Commission (2020) and temporary deviations from the fiscal rules were allowed. This empowered governments to take the necessary measures without

considering these limitations. These circumstances allowed the accumulation of significant deficits and accelerated debt. (Металова, 2021) Such deterioration of the budget parameters imposes risks for fiscal sustainability in the short term and in the long run (Casey, et al., 2021).

In addition, one of the main objectives of fiscal policy is stabilization of the economy through budget measures. Usually, it is aimed at minimizing the output gap to decrease the fluctuations during the business cycle from the long-term development trend. This is usually achieved through anticyclical adjustments (Дачов, 2021). When the output gap is positive, the structural balance should be negative (tightening). If the output gap is negative, the structural balance is supposed to be positive (loosening). Macroeconomic indicators were significantly impacted by the COVID-19 pandemic (Тренчева, 2021).

The current study aims to assess the impact of the COVID-19 pandemic on four variables – short-term and long-term fiscal sustainability, real GDP growth and minimizing the output gap. Thus, expert opinions of representatives of independent fiscal institutions in Europe are gathered through digital survey.

2. METHODS

The empirical research was carried out in the period from March 2022 to September 2022. It is aimed at respondents occupying managerial or expert positions in independent fiscal institutions. The link to the questionnaire is sent only to official members of the Network of Independent Fiscal Institutions. The survey consists of a variety of questions related to the current budgeting methods in the European Union. However, only the impact of the COVID-19 pandemic on the four variables stated above is analysed.

At the time of conducting the study, the author held the position of chief expert associate at the Fiscal Council of Bulgaria. Respondents are informed that he is conducting the research in his personal capacity and not on behalf of the institution. The survey is not funded by the private, public or non-profit sector.

The experts' assessment of the impact of the COVID-19 pandemic on the four variables is presented on an ordinal scale (Likert-type) with ranks from 1 to 5, where 1 means weak impact and 5 means strong impact. The expert assessment card, which refers to Bulgaria, was filled by another representative of the Fiscal Council team and not the author.

It should be noted that the questionnaire provided to the experts is in English, which is not the native language of the author and the respondents. Thus, slight inconsistencies in translation by both sides are possible.

The research is anonymous. The assessment of the respondents is in their personal capacity and not an official position of the independent fiscal institution. There is one question that can be used for profiling the expert. It is related to his position in the organizational structure of the independent fiscal institution. It is not obligatory to answer this question.

3. RESULTS AND DISCUSSION

Representatives from seventeen members out of twenty-seven countries in the European union took part in the study. This is considered a success as about two thirds (63%) of the members participated. A full list of the independent fiscal institutions that respondents are occupied at is presented in Table 1.

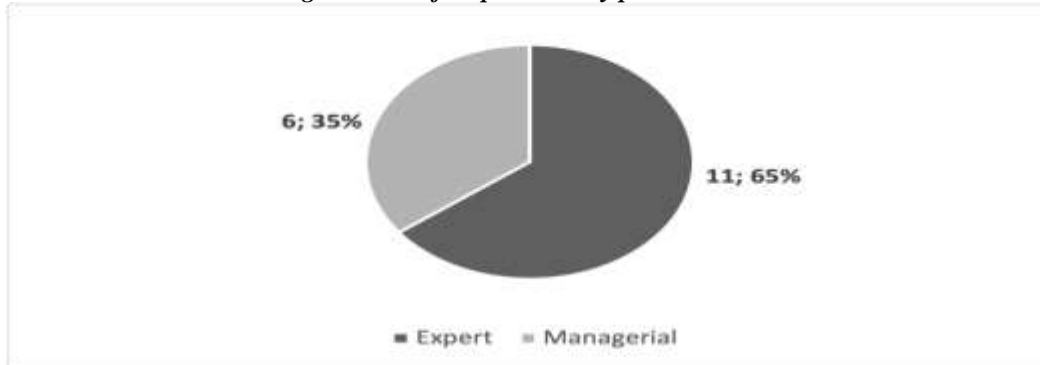
Table 1. Participants in the expert opinion stated by IFI by country in the EU

IFI	Country
1 National Audit Office	Lithuania
2 Irish Fiscal Advisory Council	Ireland
3 Danish Economic Council	Denmark
4 Slovenian Fiscal Council	Slovenia
5 Independent Authority for Fiscal Responsibility	Spain
6 Fiscal Discipline Council	Latvia
7 High Council of Public Finances	France
8 Conseil National des Finances Publiques	Luxembourg
9 National Audit Office	Finland
10 Parliamentary Budget Office	Italy
11 Czech Fiscal Council	Czech Republic
12 Bulgarian Fiscal council	Bulgaria
13 Fiscal Policy Commission	Croatia
14 Fiskalrat	Austria
15 Council for Budget Responsibility	Slovakia
16 Federal Planning Bureau	Belgium
17 Romanian Fiscal Council	Romania

Source: Own table based on data from a survey

Eleven of the respondents occupy expert positions and six – managerial (Fig. 1). This is considered a success as well, since more than one third (35%) are members or directors at independent fiscal institutions. It is believed that they are more experienced than the experts.

Fig. 1 Share of respondents by position in IFI



Source: Own figure based on data from a survey

The results regarding macroeconomic trends are presented in Table 2. The GDP growth is closely related to the budgetary parameters which are monitored by the independent fiscal institutions. In terms of this macroeconomic indicator, the share of respondents that rated the impact as 'strong' is higher than those who pointed lower than the scale mean. The modal and the median value are equal to 3 but the mean is higher. Thus, it may be considered that the experts assessed the impact of the COVID-19 pandemic on real GDP growth as slightly above average.

Table 2. Impact of COVID-19 pandemic on macroeconomic trends

Country	Real GDP Growth	Minimizing output gap
Lithuania	2	2
Ireland	1	3
Denmark	4	4
Slovenia	1	1
Spain	5	3
Latvia	4	3
France	5	-
Luxembourg	3	2
Finland	2	2
Italy	3	4
Czech Republic	3	3
Bulgaria	3	3
Croatia	5	4
Austria	3	3
Slovakia	4	4
Belgium	2	1
Romania	4	4
Mode	3	3
Median	3	3
Mean	3,18	2,88
Std. deviation	1,29	1,02
Skewness	-0,17	-0,57
Kurtosis	-0,81	-0,59

Source: Own table based on data from a survey

In terms of the challenges caused by the COVID-19 pandemic for minimizing the output gap, the share of respondents that rated the impact as ‘*weak*’ is higher. The modal and the median value are equal to 3 but the mean is lower. Compared to real GDP growth the impact of the shock is weaker. It still may be considered average but slightly below that assessment. This means that the pandemic did not impose significant challenges for the governments to conduct fiscal policy aimed at minimizing the output gap. It should be noted that the respondent from France did not indicate an answer. He commented that he found this question insufficiently precise.

Fiscal sustainability is an indicator that is measured by different methods and takes a numerical value. For instance, the medium-term sustainability gap indicator S1 shows the upfront fiscal effort required to bring the debt-to-GDP ratio to 60% (European Commission, 2017), which is the ceiling imposed by the fiscal rules. S2 shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over an infinite period including the cost of ageing. However, it is believed that fiscal sustainability can also be assessed through a more subjective approach such as the expert opinion.

Respondents are asked to assess the impact of the COVID-19 pandemic on short-term and on long-term fiscal sustainability. The results are presented in Table 3.

Table 3. Impact of COVID-19 pandemic on fiscal sustainability

Country	Short-term fiscal sustainability	Long-term fiscal sustainability
Lithuania	3	4
Ireland	2	1
Denmark	2	1
Slovenia	4	1
Spain	3	4
Latvia	4	2
France	2	4
Luxembourg	2	1
Finland	2	3
Italy	4	3
Czech Republic	2	4
Bulgaria	2	1
Croatia	5	4
Austria	5	1
Slovakia	4	2
Belgium	2	4
Romania	5	4
Mode	2	4
Median	3	3
Mean	3,12	2,59
Std. deviation	1,22	1,37
Skewness	0,45	-0,13
Kurtosis	-1,49	-1,95

Source: Own table based on data from a survey

Few of the respondents indicated level equal to the mean of the scale (3). However, the mean value of the results (3,12) is close to it. Thus, two groups of countries can be distinguished. In the first the impact was weaker than average and in the second – stronger. The modal value (2) for short-term fiscal sustainability is lower than the mean. In terms of that variable the first group of countries is larger.

The opposite is observed considering long-term fiscal sustainability. The modal value (4) is higher than the mean (2,59). Thus, the second group of countries is larger. However, the group that assesses the impact as strong indicated

'4' which is one rank above average. While the other group mostly pointed '1' which is two ranks below the average. It should be noted that none of the respondents indicated the highest rank for long-term or the lowest for short-term.

5. CONCLUSIONS

The governments of all the countries in the world faced a variety of challenges related to the COVID-19 pandemic. The unprecedented shock required significant fiscal answer. However, experts from most of the countries in the European Union do not consider that it prevented fiscal policy from achieving one of its objectives – to minimize the output gap. The impact on the real GDP growth was assessed higher but still not significantly considerable. It is highly possible that it was negated by the excessive budget response in most of the countries.

In addition, experts from most of the countries in the European Union do not assess the impact on fiscal sustainability as significant. Nevertheless, two groups of countries can be distinguished. The bigger one considers the impact on the long-term fiscal sustainability as slightly higher than average. However, the smaller group assesses it with the lowest possible rank on the scale.

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